TEACHERS' PENSION PLAN

# Pension News

INFORMATION FOR RETIRED TEACHERS AND THEIR SURVIVORS WINTER 2008

# The financial implications of turning age 65

Age 65 is one of life's most important milestones. Here are key financial changes you can expect when you turn 65.

### Your Teachers' pension is reduced at 65

Your Teachers' pension is reduced at age 65 to reflect its integration with the Canada Pension Plan (CPP). The change takes place the month following your 65th birthday.

The reduction, which is based on a formula, will decrease a typical $44,000 annual pension by approximately $5,400 a year. The reduction equals about two-thirds of the unreduced CPP pension you would qualify to receive at 65.

Many teachers choose to begin a reduced CPP retirement pension early. Beginning CPP earlier or later than age 65 will not change the size or effective date of your Teachers' pension reduction. (However, the Teachers' pension reduction applies as soon as a pensioner begins a CPP disability pension or a Teachers' survivor pension.)

### CPP provides unreduced retirement pensions

CPP provides an unreduced retirement pension at age 65 or a reduced pension as early as age 60. The reduction is six per cent a year, or 0.5 per cent per month, that you are under age 65.

The maximum annual CPP pension payable at 65 is about $10,600, fully indexed to inflation. A typical career teacher who collects reduced CPP benefits at 60 can expect an annual CPP pension of about $5,800.

You should apply for your CPP pension six months before you want it to begin.

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*There are plenty of reasons to celebrate 65 years, especially if you enjoy good health and financial security.*

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# The financial implications of turning 65

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## OAS provides up to $6,000 a year

Most retired teachers qualify for the maximum pension from Old Age Security (OAS). The maximum is currently about $6,000 a year.

OAS payments, which increase quarterly, begin at 65. There is no opportunity to collect benefits earlier. The government claws back OAS beginning with total net income of about $65,000. (See page 6, *Is Pension Income Splitting Right for You?*, for related information.)

Full OAS benefits usually are available to seniors who have lived in Canada for at least 40 years after age 18. Partial pensions may be available if residency requirements are not met.

Apply for your OAS pension about six months before you turn 65.

## Other pensions available to low-income seniors

Few career teachers qualify for other government retirement benefits, such as the Guaranteed Income Supplement, which are available to low-income seniors. If you are collecting OAS benefits and your total income, excluding OAS, is below about $15,200 for single people or as high as a combined $36,500 for some couples, contact the federal government to see if you qualify for other pension benefits. Eligibility is established annually.

## Government provides many drugs

Under the Ontario Drug Benefit (ODB) program, you can receive more than 3,300 listed drugs at little cost, beginning the month following your 65th birthday. Listed drugs include many prescription drugs, as well as some nutrition and diabetic testing products, prescribed by physicians and other recognized professionals.

You don't need to apply for the ODB program. The government automatically covers listed products if purchased from an Ontario pharmacy that is online with the government's health program. Simply show your Health Card to your pharmacist and tell him or her you now qualify for benefits because you are 65. Deductibles may apply.

## Health insurance may end or change

You may face increased insurance fees or changes in coverage when you turn 65. For example, former employers who provide post-retirement medical or dental insurance often end coverage at 65, while some carriers charge higher premiums for hospital accommodation. Make sure you understand any changes that apply to you.

## More information

| Organization | Phone | Website |
|---|---|---|
| Canada Revenue Agency | 1-800-959-8281 | www.cra-arc.gc.ca |
| CPP, OAS, GIS | 1-800-277-9914 | www1.servicecanada.gc.ca |
| Ontario Drug Benefit Program | 1-866-532-3161 | www.health.gov.on.ca |
| Ontario Teachers' Pension Plan | 416-226-2700 or 1-800-668-0105 | www.otpp.com |

# Teacher wins computer after updating information

Norma Tenaglia of Kleinburg has a new computer to help develop her skills as a special education teacher.

The teacher at St. Basil the Great College School won a draw for a desktop computer after updating her personal information online at *i*Access Web, the secure members-only section of our website.

A total of 16,462 members updated their personal information, including their communication preferences, online during the contest period from Oct. 3 to Dec. 31. The contest was designed to encourage members to keep their profiles current and to explore the many features of *i*Access Web.

### Pensioner wins $100 gift certificate

In another draw, pensioner Ed Stodulka of Ancaster won a $100 Chapters' gift certificate for supplying questions that may be used in a future *Pension News* quiz.

*Teacher Norma Tenaglia is delighted with her new computer.*

# Save trees, view pension changes at *i*Access Web

There's now an environmentally friendly way to keep abreast of changes in your monthly pension.

Instead of printed notices, you can subscribe to electronic notices of pension changes resulting from your annual inflation increase, revised government tax rates and other deductions. An e-mail will advise you to view the change in your personal pension account at *i*Access Web, the secure members-only section of our website at www.otpp.com.

In addition to saving paper, electronic notices are timely and help lower pension administration costs.

If you aren't yet registered for *i*Access Web, consider signing up by calling 416-226-2700 or 1-800-668-0105, or downloading and completing the *i*Access Web registration form on our website.

In addition to tracking changes in your monthly pension, *i*Access Web allows you to do such things as:

- change the "extra" tax deducted from your pension;
- retrieve a duplicate T4A;
- update your address and other contact information; and
- watch audio-visual presentations on popular pension subjects, including inflation protection, CPP integration, survivor benefits, and re-employment.

# The top 10 tax questions: what you need to know before completing your 2007 income tax return

The April 30 tax filing deadline is just around the corner. To help you prepare for this annual exercise, here are answers to the top 10 tax questions we receive from our Canadian pensioners.

### 1. How much tax do you deduct from my monthly Teachers' pension?

The tax we deduct varies, based on government requirements and the information you provided, usually when you retired. In calculating your deductions, we assume your Teachers' pension is your only source of income, unless you tell us otherwise. Government tax tables can change as often as every six months. If a change affects your pension, we will notify you.

### 2. Can I pay more tax during the year to avoid a big payment at tax time?

You can increase the tax deducted from your pension, to reduce the amount owing at filing time.

To make the change, we require your name, social insurance number and the amount to be deducted, expressed either as a monthly amount or a percentage of your before-tax Teachers' pension.

You can make this change on your own if you're registered for *i*Access Web, the secure members-only section of our website, at www.otpp.com. If you aren't registered, consider signing up. You can also ask us to deduct more tax by letter or phone.

### 3. I'm receiving a large refund from the government. Can you deduct less tax from my pension?

If you receive a large refund, we may be deducting too much tax. We can reduce the amount deducted if you qualify to claim additional, eligible tax credits. Eligible tax credits could apply if you become disabled, turn age 65, support certain dependants or go back to school.

To claim the tax credits, complete the federal TD1 and the TD1 from your province of residence. The TD1 and TD1 ON are available in the publications section of our website at www.otpp.com.

You also can ask the Canada Revenue Agency (CRA) for permission to reduce the income tax withheld from your pension for deductions and tax credits that cannot be claimed on the TD1. Such deductions could include large charitable donations, support payments required under a divorce or separation agreement, child care expenses, and allowable RRSP contributions (perhaps carried forward from your working years).

To request a reduction, complete the form, Request to Reduce Tax Deductions at Source (Form T1213), available in the forms and publications section of the CRA website at www.cra-arc.gc.ca. If CRA approves your request, provide us with a copy of its written authorization to deduct less tax.

### 4. What do I need to do to receive the new basic personal tax credit?

You can claim the higher credit for the 2007 tax year on the annual tax return you file by April 30. We have already revised your tax exemptions for 2008 to reflect the new credit amount. The federal government increased the basic personal exemption and the spousal exemption to $9,600 from $8,929, retroactive to 2007. The exemption rises again in 2009 to $10,100. At that time, we will adjust your tax deductions to reflect the higher amount.

### 5. Why did medical deductions show up on my pension statement?

As a courtesy to pensioners, we deduct post-retirement medical insurance premiums on behalf

of the Ontario Teachers' Insurance Plan (OTIP) and Johnson Inc. for coverage offered through Retired Teachers' of Ontario (RTO/ERO). If you are insured by either of these organizations, the premiums will be included on the pension statement you may have received in January. If you require further information on your coverage or the premiums, please contact:

- OTIP, 1-800-267-6847 or 519-888-9683; or
- Johnson Inc., 1-877-406-9007 or 416-920-7248.

### 6. What is the Ontario Health Premium and why do I have to pay for it again when I file my tax return?

The Ontario Health Premium is a provincial tax that we are required to deduct from pensions paid to Ontario residents. The premium is included in your total tax deductions in box 22 of your T4A. You are required to calculate the premium and enter the amount on your tax return for reporting purposes only. The tax is not deducted twice.

For more information about the premium, call the Ontario Ministry of Health at 1-866-410-5853, or visit www.health.gov.on.ca. For tax information, call CRA at 1-800-959-8281 or visit its website at www.cra-arc.gc.ca.

### 7. Can I deduct the Ontario Health Premium as a medical expense?

No, the Ontario Health Premium cannot be deducted as a medical expense.

### 8. Why doesn't my pension statement reflect the annual inflation increase?

The statement, which you received in January, does reflect the 1.8 per cent inflation increase for 2007 (or the prorated amount if you retired during 2007). However, your after-tax pension may have decreased as a result of the deduction of annual RTO/ERO membership dues, higher taxes or other deductions.

### 9. Where can I get a duplicate T4A?

You can retrieve a copy in your personal pension file on *i*Access Web, the secure members-only section of our website at www.otpp.com. You can also ask for a copy by phone, letter or e-mail.

### 10. Can I split my pension income with my spouse?

You can allocate up to one-half of your pension income to your spouse for tax purposes, beginning with the 2007 tax return you file this year. For more information, see page 6, *Is pension income splitting right for you?* ■

# Is pension income splitting right for you?

Many pensioners are wondering whether pension income splitting is a good financial move.

The new tax break allows Canadian residents to allocate up to one-half of their pension income to their spouse for tax purposes, beginning with 2007 tax returns that must be filed by midnight April 30.

To help our pensioners, we crunched numbers to confirm:

1. It almost always makes sense to split pension income when one spouse earns a lot more than the other. This is especially true when income splitting will allow the higher income earner to keep more or all of Old Age Security (OAS) benefits, which the government claws back beginning with net income of about $65,000.
2. It almost never makes sense to split pension income when both partners have about the same annual income.
3. It may make sense to split pension income in other situations, depending on personal circumstances.

The challenge is defining the optimal amount to split, and at press time there were few resources available to help.

"Unfortunately, pensioners may need to complete multiple working copies of their tax return and their spouse's tax return to find the optimal balance," said Rosemarie McClean, Senior Vice-President, Member Services.

"Pension income splitting is complex and highly personal, and while we aren't equipped to provide pensioners with tax advice we did come up a few examples to demonstrate the importance of doing your homework," said Ms. McClean.

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## Pension income splitting examples for Ontario pensioners

The following examples illustrate the importance of doing multiple calculations to determine the optimal amount of pension income to split with your spouse. Each example shows family tax savings that result from splitting:

- the maximum 50 per cent of eligible income;
- the amount required to equalize your income and your spouse's income; and
- the optimal amount required to maximize tax savings.

Our examples cover couples under age 65, even though a Teachers' pension can be split at any age. Unfortunately, we are not equipped to provide additional calculations or tax advice.

### Couple 1

- Member: $50,000 Teachers' pension, no other income
- Spouse: no income

| Pension splitting | Amount | Tax saving* |
|---|---|---|
| Maximum 50% split | $25,000 | $1,797 |
| Split to equalize income | $25,000 | $1,797 |
| Optimal split | $14,000 | $2,220 |

*approximate

### Couple 2

- Member: $45,000 Teachers' pension, no other income
- Spouse: $12,000 employer pension, no other income

| Pension splitting | Amount | Tax saving* |
|---|---|---|
| Maximum 50% split | $22,500 | $706 |
| Split to equalize income | $16,500 | $556 |
| Optimal split | $ 9,000 | $780 |

### Couple 3

- Member: $35,000 Teachers' pension, no other income
- Spouse: $20,000 employer pension, no other income

| Pension splitting | Amount | Tax saving* |
|---|---|---|
| Maximum 50% split | $17,500 | $ -176 |
| Split to equalize income | $ 7,500 | $ -300 |
| Optimal split | $ 0 | $ 0 |

The samples show that pension income splitting could, in certain circumstances, result in higher family taxes.

Ms. McClean said tax-preparation software or Web applications with pension income splitting features may be developed in time for the filing of 2007 tax returns.

Tax software is available through many retailers. Make sure you choose software that takes pension income splitting into account and is certified for use with the 2008 NETFILE Program, the Canada Revenue Agency's (CRA's) electronic filing service. For a list of certified software, visit the CRA website at www.cra-arc.gc.ca.

### Eligible income

Income eligible for splitting includes:

- pensions from registered pension plans, including the Teachers' pension plan; and
- annuity payments from an RRSP and income from a LIF or RRIF if received as a result of the death of a spouse or if you are 65 or older at the end of the tax year.

While payments from OAS, the Canada Pension Plan and other government income programs must be included in the calculation of your annual income, the payments do not qualify for pension income splitting.

To split your pension income, complete the new government form, Joint Election to Split Pension Income (T1032), and file it with your tax return and your spouse's tax return. The tax guide and form are available on CRA's website at www.cra-arc.gc.ca. Look for them in the forms and publications section.

For more information, watch for news reports as the tax deadline approaches or consult the following sources:

- Canada Revenue Agency, www.cra-arc.gc.ca;
- Department of Finance, www.fin.gc.ca;
- your personal tax advisor or accountant; or
- certified tax software or web applications.

# Re-employment rules change at designated employers

Working after retirement limits will apply to all retired members who work for a private school or designated organization that participates in the Teachers' pension plan, effective Sept 1.

Under current provisions, the limits affect only pensioners who work at private schools as a teacher or in some administrative capacities and at designated organizations in a designated capacity. On Sept. 1, the limits will apply to pensioners who work in *any* position.

Working after retirement rules restrict the time members can return to work without affecting their pensions. Under the limits, pensioners can work for:

- up to 95 days in each of the first three school years in which they return to work (these don't need to be consecutive years); and
- 20 days each school year after that.

Years worked during a five-year window – from Sept. 1, 2001, to Aug. 31, 2006 – are excluded from the limits.

## You Asked

*Q My husband plans to retire in June. Will working after retirement rules apply if he teaches at summer school in August?*

If your husband works in August, he will use the first of three school years in which he is allowed to work for up to 95 days without affecting his pension. This will apply even if he works for only part of a day. Keep in mind that your husband cannot begin his pension before the later of the date we receive his pension application or the date of resignation. A resignation is considered valid only if:

- his employer confirms acceptance of his resignation without condition;
- no arrangement has been made to return to work in education; and
- he has either received or arrangements have been made to receive any applicable gratuity.

*Q Why does a change in the pension age limit apply to working after retirement limits?*

The federal government increased the pension age limit to 71 from 69, retroactive to Jan. 1, 2007. This extends the pension plan's working after retirement limits to Nov. 30 of the year in which a pensioner turns 71. The extension applies because:

- the Canada Revenue Agency does not allow members under 71 to collect and contribute to their pension at the same time; and
- all eligible employees must contribute to the plan as a condition of employment. Pensioners who return to work are considered to be employees, for pension plan purposes, even if self-employed or employed through a third-party contract.

*Q Can I attend your annual meeting this year?*

You can attend the pension plan's annual meeting from 5 to 7 p.m., April 11, at The Carlu, 444 Yonge St., in downtown Toronto. You can also watch the proceedings live, or later at your convenience, at www.otpp.com. To RSVP your attendance or raise a question for the meeting, e-mail communications@otpp.com. ■

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